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OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



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August 21, 2009

Andre M. McClerklin, Executive Director
A Better World
5261 Delmar Avenue
St. Louis, MO 63108

RE: Community Development Block Grant (CDBG) (Project #2009-CDA34)

Dear Mr. McClerklin:

Enclosed is a report of our fiscal monitoring review of the A Better World, a not-for-profit organization, CDBG Program, for the period January 1, 2008, through October 31, 2008. The scope of a fiscal monitoring review is less than an audit, and as such, we do not express an opinion on the financial operations of A Better World. Fieldwork was completed on December 1, 2008.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* and through an agreement with the Community Development Administration (CDA) to provide fiscal monitoring to all grant subrecipients.

If you have any questions, please contact the Internal Audit Section at (314) 622-4723.

Sincerely,

Dr. Kenneth M. Stone, CPA
Internal Audit Executive

Enclosure

cc: Jill Claybour, Acting Executive Director, CDA
Lorna Alexander, Special Assistant for Development, CDA



CITY OF ST. LOUIS CITY OF ST. LOUIS

**COMMUNITY DEVELOPMENT ADMINISTRATION (CDA)
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)**

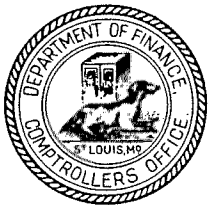
**A BETTER WORLD
CONTRACT #08-11-06
CFDA #14.218**

**FISCAL MONITORING REVIEW
JANUARY 1, 2008 THROUGH OCTOBER 31, 2008**

PROJECT #2009-CDA34

DATE ISSUED: AUGUST 21, 2009

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

CITY OF ST. LOUIS
COMMUNITY DEVELOPMENT ADMINISTRATION (CDA)
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)
A BETTER WORLD
FISCAL MONITORING REVIEW
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INTRODUCTION

Background

Contract Name: A Better World After-School Program

Contract Number: 08-11-06

CFDA Number: 14.218

Contract Period: January 1, 2008 through December 31, 2008

Contract Amount: \$20,000

The contract provided Community Development Block Grant (CDBG) funds to A Better World (Agency) to provide 48 youth ages 5-12 with homework and tutoring assistance and cultural enrichment activities. The program also provides health and fitness programs which include daily nutrition education and fitness activities and assessments.

Purpose

The purpose of this fiscal monitoring review was to determine the Agency's compliance with federal, state and local Community Development Administration (CDA) requirements for the period January 1, 2008, through October 31, 2008, and make recommendations for improvements as considered necessary.

Scope and Methodology

Inquiries were made regarding the Agency's internal controls relating to the grant administered by the CDA. Evidence was tested supporting the reports the Agency submitted to CDA and other procedures were performed as considered necessary. Fieldwork was completed on December 1, 2008.

Exit Conference

Agency was offered an opportunity for exit conference; however, it was declined.

Management's Responses

The draft report was provided to the Agency on July 11, 2009. Management's responses to the observations noted in the report was requested by July 20, 2009; however, as of the date of this report, the Agency has not responded.

SUMMARY OF OBSERVATIONS

Conclusion

The Agency did not fully comply with federal, state and local CDA requirements.

Status of Prior Observations

This is the Agency's first fiscal monitoring review; therefore, there were no prior observations.

A-133 Status

According to a letter dated July 1, 2008 received from the Agency, it was not required to have an A-133 audit because it did not expend \$500,000 or more in federal funds in its fiscal year ended December 31, 2007.

Summary of Current Observations

Recommendations have been made for the following observations, which if implemented, could assist the Agency in fully complying with federal, state and local CDA requirements:

1. Opportunity for board of directors' oversight
2. Opportunity to file IRS Form 990
3. Opportunity for compensating internal controls in lieu of segregation of duties
4. Opportunity for two signatures on checks

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

1. Opportunity for Board of Directors' Oversight

Our review of the minutes of the Agency's board of directors (Board) meetings for the period April through July 2008, and the agenda of the September 2008 meeting did not provide any evidence that the Board reviewed and discussed the Agency's financial reports and grant expenditures.

The Board has the responsibility to take care of the Agency's finances and to ensure that the Agency complies with the requirements of the grant agreement.

The Agency did not have an effective system of internal control to ensure that the Board fulfill its obligations to provide regular oversight to the Agency's financial and operational activities.

Without providing regular oversight to the Agency's operations, the Board may not be in a position to ensure if the Agency is meeting the objectives of the grant agreement and will continue to provide services to its clients for the foreseeable future.

Recommendation

It is recommended that the Agency establish a system of internal control to ensure that the Board in its meetings regularly discuss the Agency's financial and operational activities and its compliance with the requirements of the grant agreement.

Management's Response

The draft report was provided to the Agency on July 11, 2009. A response to the observation was requested by July 20, 2009; however, as of the date of this report, the Agency has not responded.

2. Opportunity to File IRS Form 990

The Agency filed its calendar year 2007 IRS Form 990 on October 16, 2008. This form was due on May 15, 2008. The Agency did not file any extensions.

IRS regulation requires all 501(c) (3) non-profit organizations with gross receipts over \$25,000.00 to file an IRS Form 990 annually. This form is due on the 15th day, five months after the entity's end of fiscal year. Entities are also allowed to file an automatic 3-month extension plus an additional 3-month extension.

Agency did not have internal controls in place to ensure the filing of its tax returns in a timely manner.

The Agency could be fined \$20 per day up to maximum of \$10,000 per year or 5% of the entity gross receipts for the reported year. The tax-exempt status could also be revoked if the form is not filed and not made available for public inspection resulting in the termination of the CDA grant agreement.

Recommendation

It is recommended that the Agency establish internal controls to ensure the timely filing of the future tax returns.

Management's Response

The draft report was provided to the Agency on July 11, 2009. A response to the observation was requested by July 20, 2009; however, as of the date of this report, the Agency has not responded.

3. Opportunity for Compensating Internal Controls in Lieu of Segregation of Duties

The same individual, at the Agency, was responsible for authorization, record keeping, reconciliations and the custody of assets and his work was not reviewed.

Segregation of duties is a basic key internal control factor established to prevent errors and irregularities in a timely manner by employees in the normal course of business. No one person should have control over two or more phases of a transaction or operation. In those circumstances where duties cannot be segregated, mitigating and compensating controls must be established. Mitigating and compensating controls are additional procedures designed to reduce the risk of errors and irregularities. For instance if the bookkeeper also performs reconciliation process, his or her work could be reviewed and documented by the management to provide additional controls over the assignment of incompatible duties.

The Agency had only one employee; therefore, his or her duties could not be segregated. However, the Agency did not established mitigating and compensating controls to reduce the risk of errors and irregularities.

If an adequate segregation of duties or mitigating and compensating controls does not exist, the following could occur:

- Misappropriation of assets
- Misstated of financial statements
- Inaccurate of financial documentation (errors and irregularities)
- Improper use of the grant fund

Recommendation

It is recommended that the Agency establish mitigating and compensating controls to prevent risk of errors and irregularities by requiring the executive director to review and document the office manager's work.

Management's Response

The draft report was provided to the Agency on July 11, 2009. A response to the observations was requested by July 20, 2009; however, as of the date of this report, the Agency has not responded.

4. Opportunity for Two Signatures on Checks

The Agency's grant-funded disbursement checks for under \$5,000 required only the business manager's signature. According to the business manager, the Agency only required one signature for checks on amounts less than \$5,000.

CDA Fiscal Procedures Manual requires the method of disbursement for expenditures shall be pre-numbered checks signed by the chief executive officer and the financial officer or any two duly authorized officers.

The Agency did not comply with the CDA Fiscal Procedures Manual's disbursement check signing requirements.

Non-compliance with the CDA requirements pertaining to dual signatures on checks may result in misappropriation of the Agency's funds. In addition, it may result in possible suspension or termination of the Agency's CDBG grant agreement.

Recommendation

It is recommended that the Agency comply with CDA requirements and have all of its grant-funded disbursement checks signed by two authorized officers.

Management's Response

The draft report was provided to the Agency on July 11, 2009. A response to the observations was requested by July 20, 2009; however, as of the date of this report, the Agency has not responded.